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Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke St.
Alexandria, VA 22314-3428

NCUA Board,

We would like to comment on the ANPR in the same order and suing the same numbering system that the ANPR uses.

1. The role of Corporates in the Credit Union system

   Payment Systems
   NCUA seems to be asking if the payment systems function of corporates should be separated from other services offered in order to separate risk. We believe it would be both difficult and cost prohibitive without losing the value corporates provide. Proper liquidity management would seem to be the best solution here. The risk would be removed if short term funds were held in instruments that could be easily liquidated.

   Liquidity & Liquidity Management
   Liquidity & Liquidity Management is one of the primary functions of a corporate credit union. Care should be taken in trying to limit the products and services that corporates are aloud to offer. This could add more systematic risks by limiting natural person credit unions ability to manage their own balance sheets. We believe that NCUA should do all within its power, to insure that corporate credit unions can borrow directly from the CLF. Corporate access to the CLF would help the liquidity condition of corporates.

   Field of Membership Issues
   We feel much of the systematic risk now in the corporate system was added by allowing national fields of membership. These credit unions were allowed to join without requiring capitalization deposits. Attracting credit unions from the national field lead to risk taking, in order to offer higher rates, yet there was not additional capital contributed to the system to compensate for the risk. Any credit union that has deposits at a corporate should be required to have capital deposits at that corporate. In addition, we believe that corporates should have one standard capitalization formula.

Expanded Investment Authority

We believe that the expanded investment authority is not necessary for corporate credit unions. The additional returns are not sufficient to justify the additional risk or the additional infrastructure to administer the expanded authorities. Demand for those type of investments are best left to be met outside the corporate system.

Structure: Two Tiered System

There is a lot of value to natural person credit unions to have centralized functions and the ability of the corporate system to aggregate balances. This allows excess liquidity to be distributed through out the system. However, with the two tiered system also comes the need to capitalize two levels. We feel that some of the losses we are seeing today in the system are the direct result of the fact that some corporates started to really try to compete with US Central. This lead to many inefficiencies and created duplicate infrastructures at US Central and some corporate credit unions. This went completely against the reason for the two tiered system and created many of the difficulties we are currently seeing.

We would also mention at this point, because it will take some time to wind US Central down, in order to minimize losses. With this being the case we should continue to take advantage of the benefits US Central brings to the table. In particular, it could continue to offer payment products such as ACH and provide limited overnight investment products.

We would encourage NCUA to take as much time as absolutely necessary to manage down US Centrals balance sheet so as to minimize losses to the system. NCUA should not seek to liquidate securities, once they come inside certain loss parameters. They should be managed to minimize loss to the system. This point is paramount.

In conclusion of this point, a wholesale corporates role should be clearly defined in the system in order to avoid the duplication of systems and infrastructure that lead to the inefficiencies and risk taking in our current problems.

2. Corporate Capital

Core Capital

Corporates should follow the Basel capital standards. This includes a minimum of 4% tier one capital and minimum risk based capital ratios. Corporates should use a 12 month rolling average daily net assets because of their unique role and structure. NCUA should provide corporate appropriate leeway and time to adjust their balance sheets and raise capital without being pressured to sale distressed securities. Additional time should also be provided to increase the percentage of retained earnings to member contributed capital. Corporate credit unions should also be able to pay back member contributed Capital as their retained earnings grow as long as all minimum capital ratios are exceeded.

Membership Capital

We believe all natural person credit unions having deposits at the corporate should be required to contribute capital. Capital amounts and annual adjustments should follow a common formula for all corporates that is based on a member's asset size.

Risk-based Capital and Contributed Capital Requirements

As already stated, in previous sections, Basel Capital standards require a risk based capital standard as well as minimum Tier-one capital standards. Corporate deposit services should be limited to members that contribute capital with standardized requirements.

3. Permissible Investments

We will leave comments on specific investment types to people with more expertise in these areas that we possess. However, we will make a few general comments about this area. Risk-based capital standards should match investment risk to capital levels, therefore the amount of investment risk would be tied to capital levels. It will be difficult for NPCU's to recapitalize the corporate system without some fairly significant limitations on investment authority and risk controls. Corporate investments should be conservative and liquid. Corporate investment authority should be greater than NPCU's so that the NPCU's can operate more efficiently with less investment infrastructure.

4. Credit Risk Management

Concentration limits should be lowered and set in a variety of areas such as but not limited to issuers, geographic distribution, and investment classes, etc.

5. Asset-Liability Management

Net income simulation and spread widening modeling should all be used. There are tools that can be used to model many different risk measures each with its own value and limitations. Assumptions should be reviewed and validated periodically.

6. Corporate Governance

We believe that the current process of non-compensated membership elected representative members is appropriate. The make up of ALCO committees is equally important and should be addressed in the regulation. ALCO committees should have representation from staff, board, and 2-3 non-directors from within the credit union system who have significant ALM experience. All corporates should set minimum qualifications for directors based on it's complexity and investment authority. We don't feel outside compensated directors are appropriate or desirable for credit unions. There are enough qualified people from within the credit union movement to fill these positions. For directors inside the credit union movement compensation is not appropriate.

In conclusion, we would like to point out that at this point we have examples of corporate credit unions that have performed well and those that have not performed well in this environment. Both of these types of institutions should be studied to learn the differences in these institutions. For example, what was done well and what was done poorly. This could provide tremendous insight into what a new corporate regulation should look like. We would also like to emphasize that corporate credit unions that are performing well should not be penalized or consolidated with the poor performing corporates. Poor performing corporates should be restructured and consolidated where appropriate.

We would like to thank you for this opportunity to be able to comment on the future of corporate credit unions. We look forward to working with you to create a better and safer credit union movement. If you have any questions, please do not hesitate to contact us.

Sincerely,

Brian Harron

Brian Harron, CFO